

134 E. Hill Street  
Long Beach, CA 90806

February 2, 2004

Redevelopment Agency Board  
City of Long Beach  
333 West Ocean Blvd.  
Long Beach, CA 90802

**RE: Independent Performance Audit vs. Proposed Independent Study**

Dear Board Members:

**Citizens Against Redevelopment Merger and Expansion** is opposed to the Redevelopment Agency Board's ongoing efforts to initiate an "Independent Study" based on a "draft conceptual plan" that has been expanded in recent weeks, but maintains an emphasis on "merger-and-expansion" strategies, as originally outlined in a Resolution submitted by Councilwoman Laura Richardson (CD6), and adopted by the City Council on October 21, 2003.

For several months, we have asked you to seriously consider the advantages of conducting an independent performance audit, based on *Government Auditing Standards* issued by the U.S. General Accounting Office ("GAO"). As of this date, the Agency Board has been steadfast and unanimous in its silent refusal to publicly discuss the merits of conducting an independent performance audit versus its own "Independent Study".

The Redevelopment Agency Board's refusal to engage in a public discussion on this matter is a great disservice to residents, business owners, citizen groups, investors, and legislative officials in each of the Agency's project areas.

We appreciate your service as civic-minded volunteers, as well as your collective expertise as professionals in banking, architecture, and real estate. But, neither your service nor expertise excuses you or the Agency from accountability to the 200,000 people who also live and do business in the project areas. They are the primary beneficiaries and victims of the economic, social and political decisions that you make.

If our expectations seem high at times, it might help you to think of them as a giant mirror that recognizes and reflects our understanding of the tremendous authority and discretion the Agency Board can exercise.

**So today, I take this occasion to encourage you, once again, to seek an independent performance audit of the Long Beach Redevelopment Agency.**

**There are two types of performance audits:**

- **Program Audits** are designed to determine whether or not a program [such as "redevelopment"] is achieving the results intended in the enabling legislation.

*For example:* An audit team performing a program audit in Long Beach would look to the California Community Redevelopment Law to determine the explicit or implicit objectives of redevelopment, develop a criteria to determine whether or not the objectives are being met, compare actual results with the criteria, and report the results.

- **Economy and Efficiency Audits** are concerned with the degree to which a program [such as "redevelopment"] is achieving its objectives in a "cost-efficient manner."

*For example:* An audit team performing an economy and efficiency audit would determine whether the Agency is protecting, and using its resources [e.g., monies, personnel, property, and space] economically and efficiently, determine the causes of inefficiencies or uneconomical practices, determine whether the Agency is in compliance with all applicable laws and regulations on matters of economy and efficiency, and report the results.

It will be many years before the Redevelopment Agency's resources will allow it to meet its most important mandates and objectives, if ever. We question your expressed desire to expedite your proposed study process without considering superior alternatives.

Please take time to deliberate, and have an open, honest conversation about your interest in or opposition to quantifying the Redevelopment Agency's track record.

Sincerely,

A handwritten signature in black ink, appearing to read "Lewis Lester". The signature is fluid and cursive, with the first name "Lewis" and last name "Lester" clearly distinguishable.

Lewis Lester, MPA  
Chair,  
Citizens Against Redevelopment Merger and Expansion

**Enclosure:**

*(1.) Draft Memorandum (dated May 14, 2001) from Melanie Fallon to Henry Taboada, expressing concerns about "the possibility of adverse audit findings, which could require the return of federal grant or RDA funds."*



**DRAFT**

**Date:** May 14, 2001  
**To:** Henry Taboada, City Manager  
**From:** Melanie S. Fallon, Director of Community Development  
**Subject:** Request for Support of Continued Citywide Economic Development Activities

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One of the Department's critical issues this year was identifying funding to continue the delivery of quality services to the City's business community by the Economic Development Bureau. In reviewing the existing funding sources and services provided, I am concerned about the possibility of adverse audit findings, which could require the return of federal grant or RDA funds. Specifically, I am concerned that past practice has found us providing services to businesses outside of areas eligible for use of these funds. ✓

To address this potential liability, I am requesting support from the General Fund to ensure the continued delivery of **citywide** business services. I also request approval to create a new Business Technology Division to address advances changing the citywide business environment.

#### Background

In his address at the recent California State University Long Beach Economic Forecast,<sup>1</sup> Dr. Joseph Magaddino stated that the City's largest employment sector is business services, at about 29% of the market. This is a dramatic transition from the City's manufacturing-based economy that was crippled by the recession of the early 1990s. He emphasized the benefit of the City's Economic Development Bureau in bringing in new businesses, which resulted in a diversified economic base and added to the City's taxable sales.

With the changing needs of today's business environment, I am reviewing the operations of Economic Development to ensure the continued delivery of quality and innovative and high quality business services. The goal is to develop an integrated approach to providing services that both meet community needs and attains a leadership position in the use of new business technologies. During my initial review, two areas of concern have surfaced: first, the need for unrestricted funding to provide services citywide; and second, an urgent need to promote and recruit new high technology businesses.

#### Unrestricted Funding

The three major sources of funding used by most California cities for Economic Development activities are Redevelopment, General Fund, and Community

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<sup>1</sup> The 2001 - 2002 California State University Long Beach Economic Forecast, May 10, 2001

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Development Block Grant (CDBG).<sup>2</sup> Long Beach has traditionally used Redevelopment, CDBG and Workforce Investment Act (WIA) funding to provide these services. Currently, there is no General Fund support for economic development. While each of these non-General Fund sources have specific restrictions that preclude their use in addressing citywide business needs, especially marketing and recruitment, this generally went unquestioned in the past. Recently, however, addressing the increased need for citywide services has proven more difficult, and the chance of adverse audit findings more probable. ✓

### Changing Factors

The Department's role in making resources available needed to provide economic development services outside targeted areas have become more difficult. Factors contributing to this situation include:

The push to provide better access for community involvement in evaluating and establishing priorities for redevelopment funds.

New reporting standards for CDBG, which require that information be provided on the WEB for each specific activity.

- Greater involvement by the community regarding justification for economic development services provided with CDBG and RDA funds.

The exhausting of a \$1.3 million RDA loan fund balance to provide "unrestricted" services.

A growing demand for services outside traditional service areas.

To answer questions regarding use of CDBG and RDA funding, Staff has worked closely with the community to advocate the benefits of economic development. This work has resulted in sufficient funding commitments for FY 2001-2002 within the target areas, but a funding gap still exists for citywide services.

Examples of businesses recently assisted by economic development which would not be eligible for assistance with RDA, CDBG, or WIA funding in FY2001-02 include: Epson, Cisco, Beach Toyota, Circle Imports, Los Altos Gateway (Lowe's, Kmart, Beach Chevrolet), Office Depot, and Marina Pacifica. A recent evaluation of the net sales tax gain to the City from these businesses is \$1,342,000 annually. This revenue supports the General Fund for citywide services. ✓

In my experience, HUD audit findings generally focus on ineligible use of funding, and in instances of such findings, the city must pay penalties from non-federal sources of funding in addition to refunding disallowed expenditures. RDA ✓

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<sup>2</sup> Based on a survey of 41 California cities with Economic Development programs

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problems could result from State or local investigations, lawsuits, or other inquiries. I recommend avoiding both situations.

#### Technology Initiative

Business Technology is a moving force in today's economy. This is expected to grow in the coming years due, in large part, to gains in productivity brought on by the use of new technology.<sup>3</sup> To continue the City's focus on the three T's – Trade, Tourism, and Technology, which meet priorities identified in the 2010 Strategic Plan, I propose the creation of a new Business Technology Division (see new organizational structure, attachment "A").

This new division would consist of three primary units, E-Government, Economic Analysis, and Technology Recruitment. This commitment of City resources would create a staff dedicated to the understanding and use of technologies which enhance business-related City services, as well as to the advocacy for measures to bring new high technology businesses to Long Beach.

As one of their duties, the E-Government section would be called upon to work with the DLBA and the Department of Public Works to develop a "fiber optic resource map" showing locations of existing and proposed fiber optic lines. They will become strong advocates for continued infrastructure improvements, which would enhance the City's technological capacities. Staff will also strive to create and utilize advanced GIS mapping capabilities in attracting new high tech employers to the City. Finally, this group will attempt to improve communications between internal and external customers through the application of the new technologies now available (i.e. informational databases and enhanced websites).

The Technology Recruitment section will work to understand specific needs of high technology businesses, and to promote opportunities to locate them in Long Beach, creating new employment. Key to this will be efforts to integrate Workforce Development Bureau training programs with the needs of new high technology-based businesses.

The Economic Analysis section will develop a comprehensive, citywide lease tracking system to identify opportunities to provide information for business recruitment and to anticipate "growth problems" being experienced by existing businesses requiring larger sites. Staff will also work on the development of a more accurate and easily accessible sales tax analysis system. Finally, staff will work to develop business trends and demographic analysis tools to aid in making sound business location and expansion decisions.

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<sup>3</sup> According to Lisa M. Grobar, Ph.D. at the 2001-2001 CSULB Economic Forecast May 10, 2001

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As previously stated, Business Services is one of the fastest growing sectors of the Long Beach economy. In the past five years employment in this sector in Long Beach grew 46%, compared to only 6% in the manufacturing sector. The proposed Technology Initiative will ensure that Long Beach is on the forefront of changes in the business community and will help provide economic development services more efficiently by using high technology for delivery.

#### RECOMMENDATIONS

1. Approve the allocation of General Purpose funds to ensure Economic Development services are provided citywide. Of the total amount of services currently provided by Economic Development approximately 30% are in areas not eligible for funding identified for FY2001-2002 (see attachment "B" for budget analysis).

General Purpose funding would be used to provide ED services in areas of the City not eligible for CDBG and RDA areas (i.e. Belmont Shore, LB Airport, Marina Pacifica). Specific services include:

- Business Incentives
- Business Marketing
- Sales Tax Incentive Program
- Site Selection Assistance
- Toyota Grand Prix Support
- Administration of PBID agreements

**Total = \$435,000**

2. If you agree that the City should create a new Business Technology Division, and that these services should be provided citywide, additional General Purpose funding will be needed as well. I have budgeted resources to accomplish the delivery of services from a new Business Technology Division to RDA and CDBG areas. General Funding would allow for a citywide initiative.

**Total = \$200,000**

I hope you agree that economic development services are an integral part of the City's future growth. I look forward to discussing the issues raised here at our meeting Friday, May 18<sup>th</sup>.

MSF:LM:cb